A Survey of Residual Market Plan Assessment and Recoupment Mechanisms

Commissioned by Personal Insurance Federation of California

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PURPOSE OF REPORT

The Personal Insurance Federation of California (PIFC) is an association of Property and Casualty insurers in California. PIFC engaged Milliman, Inc. (Milliman), an independent actuarial consulting firm, to research the assessment and recoupment mechanisms of residual market plans in the United States. This report summarizes the findings of the research.

BACKGROUND

The insurance industry plays a crucial role in mitigating risks and providing financial protection to individuals, businesses, and communities. However, in certain cases, accessing traditional insurance coverage can be challenging due to high-risk factors, geographical limitations, or unique circumstances. Residual market plans, including Fair Access to Insurance Requirements (FAIR) Plans and Windstorm and Beach Plans, operate as the market of last resort within the industry to ensure that insurance remains accessible to all.

Residual market plans typically rely on a combination of funding sources, including premiums, assessments, reinsurance, and government support. Assessments refer to the charges imposed on insurance companies to cover losses incurred by the plans and are often distributed based on market share. Typically, admitted private insurance companies licensed to write lines covered by the plans are involuntary members of the plans, and are required to share in any profit (in the form of distributions) and losses (in the form of assessments) as a condition of their authority to transact insurance in the corresponding state.

In some states, insurers are allowed to recoup amounts levied in an assessment, typically in the form of a premium surcharge to policyholders. Understanding the recoupment mechanism allow for a comprehensive assessment of how the financial burden is shared among policyholders and insurance companies, and can shed light on potential impacts on the affordability and availability of insurance.

In this report, we explore the current landscape of residual market plans and examine assessment and recoupment mechanisms imposed by these plans.

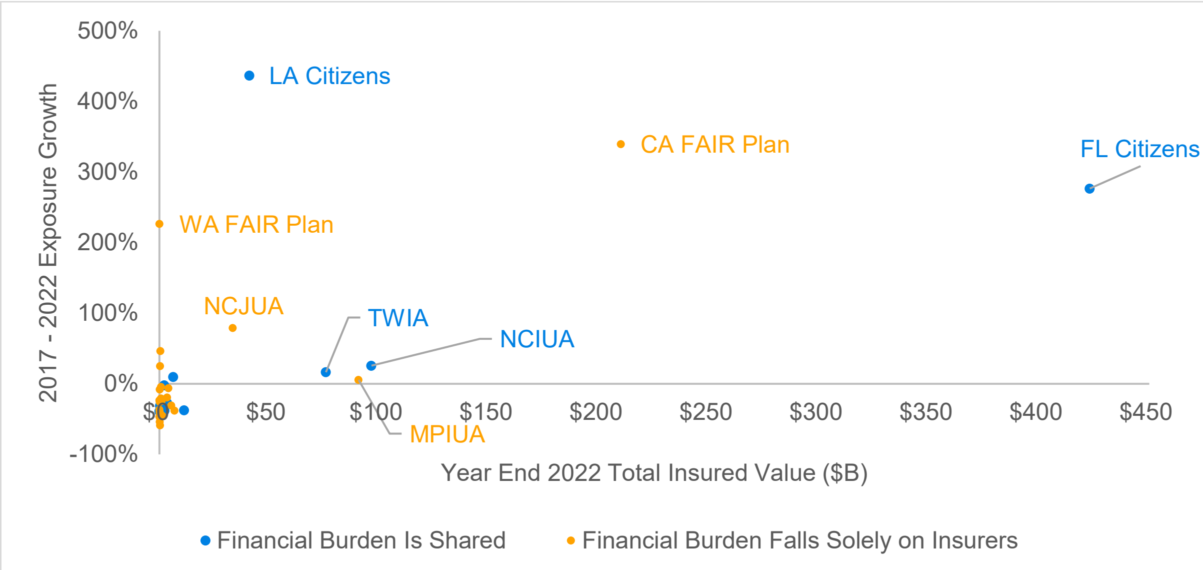
SCOPE, METHODOLOGY, AND DATA

This report presents a summary of research of the assessment and recoupment mechanisms of 31 Property plans and five Beach and Windstorm plans. We relied on publicly available data including statutes that govern the residual market plans, as well as published reports or plans of operation of the plans. In addition, we utilized data purchased from The Property Insurance Plans Service Office, Inc. (PIPSO), an organization that collects and disseminates statistics related to the operation of residual market plans.

KEY FINDINGS

Figure 1 below summarizes the five-year growth and 2022 exposure in terms of Total Insured Value (TIV) of the examined residual market plans. Plans with notable recent growth or size are individually labeled, and categorized by whether or not there exist provisions so that insurance companies are not the sole bearer of the plans' financial burden.

FIGURE 1: SIZE AND FIVE-YEAR GROWTH OF RESIDUAL MARKET PLANS



Key findings from our study are as follows:

- Residual market plans generally have some provision that member insurance companies provide funds to cover deficits in event of events exceeding plan surplus and reinsurance. The details are not always explicit; we analyzed 36 PIPSO plans and only 15 had detail on how deficits are funded. Assessments are typically based on market share, but there may be limits and there may also be other ways for plans to fund deficits.
- Member companies are typically entitled to include the cost of assessments in subsequent rate filings. Again, this is not always true and it is not always explicit; only 12 of the 36 plans definitively stated whether recoupments are allowed.
- Of the 36 residual market plans examined, 12 have explicit provisions that prevent insurers from solely bearing the burden of funding deficiencies. Absent explicit provisions insurers may not always be allowed, or may not be confident that they will be allowed, to include assessments in future rate filings. As long as the plans are relatively small, this may not present an issue. However, uncertainty around assessment and recoupment becomes more significant for residual market plans whose size could represent material risks to member insurers.
- There are three residual market plans that have experienced substantial growth and significant exposure.
  - Florida's Citizens Property Insurance Corporation (FL Citizens) grew by +277% between 2017 and 2022, resulting in $423 billion of in-force TIV at the end of 2022. The financial burden of FL Citizens is shared among its policyholders, private insurers, and the private market insurance policyholders in the state, and there is a process for insurers to recoup assessments.
  - The California FAIR Plan Association (CA FAIR Plan) grew by +339% over five years to a 2022 in-force TIV of $210 billion. There is currently no publicly available guidance on the assessment mechanism of the plan, nor whether insurers may recoup any such assessments.
  - The Louisiana Citizens Property Insurance Corporation (LA Citizens) experienced the highest overall growth over the period, +414% resulting in $41 billion of 2022 in-force TIV. Insurers are allowed to recoup assessments levied by LA Citizens through a premium surcharge.
- Only one other plan grew by more than 100% since 2017. The Washington FAIR Plan (WA FAIR Plan) showed a five-year exposure increase of +226%, but had only about $70 million in TIV at the end of 2022. The WA FAIR Plan does not provide guidance on the assessment and recoupment mechanisms of the plan.

- Additionally, the Texas Windstorm Insurance Association (TWIA), North Carolina Insurance Underwriting Association (NCIUA), and the Massachusetts Property Insurance Underwriting Association (MPIUA) have 2022 exposure exceeding $50 billion.
    - All three plans showed minimal growth in recent years.
    - TWIA has a complex funding mechanism that accesses liquidity through a combination of public debt and assessments, NCIUA permits insurers to include provisions for future plan assessments in rates, and MPIUA does not offer guidance on its assessment and recoupment mechanisms.

DETAILED FINDINGS

Overview of Plans

Appendix A summarizes the size, growth and underwriting performance of the 36 plans examined. The CA FAIR Plan ranks second by measure of exposure with a TIV of $210 billion in 2022, second only to FL Citizens with $423 billion of TIV. The NCIUA and MPIUA are the third and fourth largest plans in the country, with TIV for each of these plans roughly half of the California FAIR Plan's exposure. There are only four other plans with exposure above $10 billion, and about half with exposure less than $1 billion.

It is helpful to contextualize the size of the plans with their corresponding growth in recent years. In general, rapid growth in the residual market may indicate deterioration in the health of the primary market, since it shows a change in the willingness and/or ability of private insurers to take risk in a given state. Table 2 below shows the growth, resulting size, and five-year combined ratio for the four plans that more than doubled in size between 2017 and 2022.

TABLE 2: GROWTH AND SIZE OF RESIDUAL MARKET PLANS

Residual Market Plan	2017 In-Force Exposure ($M)[1]	2022 In-Force Exposure ($M)[1]	5-Year Growth	5-Year Combined Ratio[2]
Louisiana Citizens	$ 7,631	$ 40,935	436%	414%
California FAIR Plan	47,757	209,808	339%	108%
Florida Citizens	112,310	422,953	277%	193%
Washington FAIR Plan	21	70	226%	126%

While underwriting results vary, most plans concluded the five-year period ending 2022 with a combined ratio of over 100%. Combined ratio is a measure of an insurance company's profitability, calculated as the sum of incurred losses and expenses divided by the earned premium. A combined ratio below 100% indicates that the company is making an underwriting profit, i.e. the company is earning more than what it is paying. On the other hand, a combined ratio above 100% indicates that the company is making an underwriting loss, i.e. the expenses and claims paid are more than the premium received.

The California FAIR Plan and Florida Citizens, the two largest residual market property plans, reported combined ratios of 108% and 193%, respectively, in aggregate over the five-year period. Of note is also Louisiana Citizens, which suffered heavy hurricane losses and had a 2021 combined ratio exceeding 1500%, contributing to a five-year combined ratio of 414%.

Assessment Mechanism

In researching the funding mechanisms of residual market plans, we found that most plans do not have detailed descriptions on when and how assessments are made. These plans use generic language like "as determined by the board and as approved by the superintendent" and provide little insight to what constitutes a need for assessments, and how those assessments would be structured.

[1] Estimated In-Force Exposure at the end of the period defined in the heading.
[2] Aggregate combined ratio 2018 through 2022.

We found that 15 of the plans researched provide at least some detail on how losses and expenses are funded. For example, TWIA has a complex funding mechanism that accesses liquidity through a combination of public debt and assessments. Some plans like LA Citizens and FL Citizens take a multi-tiered approach, where the plans' policyholders, member insurers, and private market insureds are assessed to fund deficits.

While most plans make an assessment after a deficit is incurred, the Michigan Basic Property Insurance Association estimates an anticipated deficit and levies a corresponding assessment from member companies. The member companies, in turn, are allowed to adjust their rates to provide for the amount of the assessment established.

Some plans, such as the New York Property Insurance Underwriting Association and the Oregon FAIR Plan Association, place a maximum amount (for example as a percentage of direct written premium) on the assessment that member companies can be charged.

In all cases, the participation of member companies in profits, losses, and expenses of the residual market plans are in direct proportion to their market shares of business written in the state. While some variation exists on the timeframe with which the market shares are calculated, all are measured by direct written premium.

Recoupment Mechanism

In researching the funding mechanisms of residual market plans, we found that most plans do not explicitly address whether assessed insurers can recoup the assessed amounts. Of the 36 plans researched, only 12 plans definitely state whether recoupment of assessments is allowed (See Appendix A for a high-level overview).

Among the 12 plans that provide explicit guidance on whether or not assessed insurers can recoup assessments, 10 of 12 allow some kind of recoupment. Typically, the recoupment takes the form of a premium surcharge. The level of detail of guidance on the calculation of this premium surcharge is mixed—some plans, such as the District of Columbia Property Insurance Facility and the Maryland Joint Insurance Association, prescribe a factor with which to calculate the premium surcharge, while other plans allow insurers to calculate a factor custom to them. Some plans do not provide specific guidance on how the recoupment is made. For example, the Alabama Insurance Underwriting Association simply states that "[a] Member may recoup an assessment the Member has paid to the Association in the manner authorized under State law."

The two plans that provide explicit guidance on recoupment assessments yet prohibit recoupment are North Carolina Insurance Underwriting Association (NCIUA, also known as the "Beach Plan") and TWIA. However, worthy of note is that Article 45 of the North Carolina General Statutes mentions that "[p]rospective exposure to nonrecoupable assessments shall be considered as an appropriate factor in the making of rates by the North Carolina Rate Bureau." In other words, while the North Carolina Beach Plan does not allow retrospective recovery of assessments, member companies may include a provision in premium rates to account for possible future assessments.

See Appendix B for details of the assessment and recoupment mechanisms of selected plans.

Appendix A: summary of residual market plans

Residual Market Plan	2017 In-Force Exposure ($M)[3]	2022 In-Force Exposure ($M)[3]	5-Year Growth	5-year Combined Ratio[4]	Financial Burden is Shared[5]
Citizens Property Insurance Corporation	$ 112,310	$ 422,953	277%	193%	✓
California FAIR Plan Association	47,757	209,808	339%	108%	×
North Carolina Insurance Underwriting Association	76,698	96,407	26%	148%	✓
Massachusetts Property Insurance Underwriting Association	85,862	90,573	5%	97%	×
Texas Windstorm Insurance Association	65,024	75,699	16%	69%	✓
Louisiana Citizens Property Insurance Corporation	7,631	40,935	436%	414%	✓
North Carolina Joint Underwriting Association (NCJUA)	18,669	33,405	79%	136%	×
Texas FAIR Plan Association	18,029	11,302	-37%	102%	✓
New York Property Insurance Underwriting Association	11,077	6,892	-38%	131%	×
Alabama Insurance Underwriting Association	5,800	6,359	10%	130%	✓
South Carolina Wind & Hail Underwriting Association	7,845	5,444	-31%	105%	×
Rhode Island Joint Reinsurance Association	4,362	4,090	-6%	95%	×
Virginia Property Insurance Association	4,361	3,510	-20%	94%	×
Ohio FAIR Plan Underwriting Association	4,806	3,503	-27%	89%	✓
Mississippi Windstorm Underwriting Association	3,960	2,452	-38%	169%	✓
Michigan Basic Property Insurance Association	2,300	2,247	-2%	96%	✓
Georgia Underwriting Association	2,599	1,425	-45%	78%	×
New Jersey Insurance Underwriting Association	1,876	1,134	-40%	103%	✓
Insurance Placement Facility of Pennsylvania	1,426	1,080	-24%	110%	×
Kansas All-Industry Placement Facility	1,001	794	-21%	79%	×
New Mexico Property Insurance Program	825	791	-4%	84%	×
Wisconsin Insurance Plan	322	472	47%	114%	×
Oregon FAIR Plan Association	283	355	25%	147%	×
Minnesota FAIR Plan	755	311	-59%	113%	×
Maryland Joint Insurance Association	408	280	-31%	180%	✓
Illinois FAIR Plan Association	440	261	-41%	125%	×
Connecticut FAIR Plan	404	243	-40%	104%	×
Kentucky FAIR Plan Reinsurance Association	497	230	-54%	96%	×
Insurance Placement Facility of Delaware	274	204	-26%	167%	×
Mississippi Residential Property Insurance Underwriting Association	321	171	-47%	93%	×
Missouri Property Insurance Placement Facility	181	166	-8%	111%	×
Indiana Basic Property Insurance Underwriting Association	170	91	-47%	89%	×
Washington FAIR Plan	21	70	226%	126%	×
Iowa FAIR Plan Association	86	54	-37%	136%	×
District of Columbia Property Insurance Facility	72	44	-39%	191%	✓
West Virginia Essential Property Insurance Association	34	26	-24%	113%	×

[3] Data from 2023 PIPSO Report. Figures represent estimated In-Force Exposure at the end of the period defined in the heading.
[4] Data from 2023 PIPSO Report. Figures represent 2018-2022 aggregate Combined Ratio.
[5] Classification is based on publicly available information including state statutes, assessment reports, and plans of operation. A checkmark (✓) indicates that explicit provisions exist for the plan's financial burden to be shared with the admitted market policyholders or other funding sources; a cross (×) indicates that no such provision was found.

Appendix B: Detailed information of selected plans

PROPERTY PLANS

California FAIR Plan Association

The California FAIR Plan allocates its accounting activity to pool years, which remain open until closure is approved by the Governing Committee. When a pool year is closed, either a distribution, assessment, or capital contribution of equity (i.e. reapplication to other pool years) of funds may be made. A distribution or assessment requires the approval of the Commissioner. Distributions and assessments are proportional to member companies' written premiums during the second preceding calendar year, excluding that portion of the premium written attributable to the operation of the FAIR Plan. All admitted insurers licensed to write and engaged in writing *Basic Property Insurance* in California are involuntary members of the California FAIR Plan.

The FAIR Plan assessed its members $260.0 million in 1994 and 1995, and since then has distributed approximately $434.8 million to members when pool years were closed.

California FAIR Plan Association Plan of Operation

2022 California Department of Insurance Operational Assessment Report

District of Columbia Property Insurance Facility

The Mayor is authorized to assess each insurance company authorized to do business in the District of Columbia an amount, proportional to the company's earned premium in the District of Columbia, on lines reinsured in the District of Columbia by the Secretary of Housing and Urban Development, to provide a fund to reimburse the Secretary of Housing and Urban development.

Assessed insurers "shall add to the premium rate an amount, to be approved by the Mayor, sufficient to recover, with not more than 3 years, any amounts assessed…during the preceding calendar year." The amount is a separate charge to the insured in addition to the premium to be paid. No commission shall be paid on such amounts added.

Code of the District of Columbia § 31–5010

Citizens Property Insurance Corporation (Florida)

Florida Citizens' assessment mechanism takes a three-tiered approach:

1. **Citizens policyholder surcharge**: Assessments begin with the one-time Citizens Policyholder Surcharge of up to 15% of premium per account[6] for each account in which there is a deficit. Each additional tier is charged only if the level before is insufficient to eliminate Citizens' deficit. If there is a shortage in each of the three accounts, policyholders could pay up to a 45% surcharge in addition to their annual premium. Additional surcharges and assessments or other adjustments[7] may be applied to a Citizens policy in addition to the Citizens Policyholder Surcharge.
2. **Regular Assessment**: If a deficit remains only in the Coastal Account after the full amount of the Citizens Policyholder Surcharge is levied, the second tier – a Regular Assessment of 2% of premium – will be added to assessable policies in the private market. The policies subject to the Regular Assessment include private-market homeowners policies, auto, specialty and surplus lines policies.
3. **Emergency assessment**: The third and final tier of assessments – the Emergency Assessment – is charged if a deficit remains in any of the accounts after levying the 2% Regular Assessment. Emergency Assessments can be up to 10% per account per year for each of Citizens' three accounts. It is levied on both Citizens and non-Citizens policyholders for as many years as necessary until the deficit is resolved. In other words, Citizens

[6] Citizens has three policy accounts – Coastal, Personal Lines and Commercial Lines – which are financially independent of one another and have separate claims-paying resources and capacities.

[7] In addition to the Citizens Policyholder Surcharge, the following additional surcharges and assessments or other adjustments may be applied to a Citizens policy.

- Florida Hurricane Catastrophe Fund Assessment
- Catastrophe Financing Surcharge
- Catastrophe Protection Surcharge
- Emergency Management Preparedness and Assistance Trust Fund (EMPA)
- State Fire Marshal Regulatory Surcharge
- Tax-Exempt Surcharge
- Florida Insurance Guaranty Association Assessment (FIGA)

For additional details, see https://www.citizensfla.com/surcharges and private-market policyholders can be surcharged up to 30% of premium per year until any remaining deficit is eliminated.

Each assessable insurer's share of the amount being assessed under Regular Assessments is in proportion to its direct written premium for the subject lines of business for the years preceding the assessments. By statute, Regular Assessments levied on insurers constitute advances of funds from the insurer to the residual market entity, and that the insurer is entitled to fully recoup such advances.

The recoupment is made by applying a separate recoupment factor on policies of the same line or type, and the assessment factor shall provide for full recoupment of the assessments over a period of one year, unless the insurer elects to recoup the assessments over a longer period. Amounts recouped are not subject to premium taxes, fees, or commissions.

In addition, the recoupment factor may not be more than three percentage points above the ratio of deficit assessment to Florida direct written premium for policies for the lines of business as to which the assessment was calculated. Statute requires that the insurer file the recoupment factor and an explanation of how the factor will be applied, at least 15 days prior to the factor being applied to any policies.

Florida Statutes Chapter 627.351: Insurance Risk Apportionment Plans

Florida Statutes Chapter 627.3512: Recoupment of Residual Market Deficit Assessments

Louisiana Citizens Property Insurance Corporation

Any insurer who becomes authorized to engage in writing property insurance within Louisiana and who engages in writing property insurance within Louisiana becomes an Assessable Insurer on January first immediately following such authorization, and ceases to be an Assessable Insurer one year after the end of the first calendar year during which the insurer no longer holds a certificate of authority to transact insurance for Subject Lines of Business (e.g. fire, allied lines, homeowners' multiperil, the property insurance portion of commercial multiperil policies, etc.) in Louisiana.

1. **Regular Assessment**: In the event that the Governing Board of the Louisiana Citizens Property Insurance Corporation determines that a deficit exists, the Corporation may levy a Regular Assessment in accordance with the statute in order to remedy such deficit. A Regular Assessment shall not be levied unless and until all profits and excess reserves over and above reasonably anticipated recurring operating costs have been exhausted. The Regular Assessment equals the lesser of:
    i. the calendar year deficit, and
    ii. 10% of the aggregate statewide direct written premium for Subject Lines of Business for the prior calendar year.
2. **Emergency Assessment:** Any deficit not covered by the Regular Assessment is recovered through Emergency Assessments, which are assessed on policyholders of Assessable Insurers of the Subject Lines of Business. The Emergency Assessment shall not exceed the greater of:
    i. 10% of the amount needed to cover the original deficit
    ii. 10% of the aggregate statewide direct written premiums for Subject Lines of Business for the prior calendar year.

Assessed Insurers are permitted to recoup all Regular Assessments by applying a surcharge to all policyholders for Subject Lines of Business. The surcharge shall be a uniform percentage of premiums, but is not considered premium, not is subject to any taxes, commissions, fees, or other charges.

Louisiana Citizens Property Insurance Corporation Plan of Operation

Maryland Joint Insurance Association

Maryland statues provides that any insurer licensed to write in Maryland, on a direct basis, "essential" property insurance, is a member of the Association. Motor vehicle insurance, inland marine insurance, and insurance for larger, high-value manufacturing facilities are not considered "essential."

The statute states that member companies are able to recoup any assessment levied by the Association, by either a surcharge or rating factor being added to direct premiums written for essential property insurance and homeowner's insurance covering property located in the state. However, the statute does not provide any details on the Association's assessment mechanism, and we were not able to locate the Association's program of operation.

Maryland Property Insurance Availability Act

Michigan Basic Property Insurance Association

Every year, the Michigan Basic Property Insurance Association establishes an annual rate of assessment needed to cover any anticipated deficits. This estimate of deficit is filed with the commissioner, and is used as a basis for quarterly assessments to participating members. Participating members may adjust premium rates to provide for the amount of this assessment.

Separately, the Association may levy advance assessments at any time for purposes of paying claims and expenses, and such advance assessments are to be credited against the quarterly-payable assessments.

All insurers authorized to transact in the state of Michigan basic property insurance or home insurance are members of the Association.

Michigan Statute on Basic Property Insurance

New Jersey Insurance Underwriting Association

Any insurer authorized to write and engaged in writing any insurance is required to be a participant in the Association, where participation begins the January 1st immediately following such authorization.

The Association is authorized to assess member companies to eliminate any deficit or projected deficit. These assessments are based on member companies' net direct written premium in the year preceding the assessment, provided the assessment does not exceed 5% of the assessed insurer's policyholder surplus. Upon the closing of any Policy Year, net gains are distributed to member companies. The Board is required to provide the Commissioner with at least 15 days of written notice of an assessment or distribution.

New Jersey statutes have established a fund known as the "New Jersey Insurance Development Fund," for the purpose of providing a financial backup for the Association, funded by a Commissioner-determined premium surcharge upon all basic property insurance premiums.[8] The fund is used to reimburse insurers for losses sustained in excess of a retention level established by the Commissioner. According to the 2023 PIPSO report, this retention amount is $35 million. Statutes also provide that the reimbursement shall not exceed 5% of the insurance premium written on basic property insurance in New Jersey in the most recent full calendar year.

New Jersey Insurance Underwriting Association Plan of Operation

New Jersey Statutes Chapter 17:37A

New York Property Insurance Underwriting Association

All licensed companies, except assessment co-operatives, are required to join and accept participation on the basis of their respective share of direct fire and extended coverage premiums written in the state. Annually, the Association estimates its deficit from operations. Any deficit is first credited with income earned form the New York Property/Casualty Insurance Security Fund, not exceeding the income earned on the fund or $15 million, whichever is less. If a deficit still exists, then members may be assessed up to 1% of net direct written premium for the preceding calendar year, *or* the Association may be granted rate increases in certain rate classes. We did not find any mentions of recoupments of assessments.

Report on Examination of New York Property Insurance Underwriting Association as of December 31, 2017

Ohio FAIR Plan Underwriting Association

The Ohio FAIR Plan Underwriting Association consists of all insurers authorized to write within the state, on a direct basis, basic property insurance.

Ohio statutes allows the Plan to make periodic advance assessments against member insurers to cover any deficit or projected deficit arising out of operation. Any such advance assessments requires approval by the superintendent.

[8] The surcharge is not to exceed a sum equal to 5% of the insurance premium written on basic property insurance in New Jersey in the most recent full calendar year. In addition, the surcharge is a separate charge to the insured and insurers are prohibited from absorbing such surcharge as an inducement for insurance or for any other reason.

According to the Plan's Plan of Operation, member insurers may recoup assessments levied by adjusting its premiums for basic property insurance and homeowner's insurance by the addition of a rating factor. The rating factor is computed by the board of governors of the Plan and approved by the superintendent.

Ohio FAIR Plan – Plan of Operation

Ohio Statute 3929.43 Ohio fair plan underwriting association

Oregon FAIR Plan Association

Oregon statutes provide the Oregon FAIR Plan Association authority to assess member insurers "the amounts necessary to pay the expenses incurred by the association in meeting its obligations." These assessments are in proportion to the net direct written premiums of each member insurer, and subject to a maximum of 2% of the insurer's net direct written premium for the second preceding calendar year. The statute does not provide any guidance on recoupment of assessments.

Oregon Statute Section 735.065

Texas FAIR Plan Association

Any insurer licensed to write property and casualty insurance in Texas and writing residential property insurance in Texas, including reciprocal exchanges and Lloyds plan insurers, is a member of the Texas FAIR Plan Association.

The Association is authorized to assess member insurers to cover any deficit, which is determined annually. In addition, the Governing Committee may at any time levy an interim assessment to provide necessary operating funds.

Member insurers may recoup assessments by adding a premium surcharge on every property insurance policy issued or renewed for a three-year period beginning ninety days after the date of the assessment by the Association. The surcharge is to be a uniform percentage of the premium on such policies equal to 1/3 of the ratio of the amount of an assessment to the amount of its direct earned premium for the preceding calendar year. Surcharges are not subject to premium tax unless so determined by the Comptroller of Public Accounts.

Texas FAIR Plan Association Plan of Operation

BEACH AND WINDSTORM PLANS

Alabama Insurance Underwriting Association

All insurers licensed to transact property insurance on a direct basis in Alabama are members of the Alabama Insurance Underwriting Association. Insurers newly authorized to write and engage in writing property insurance in the state become members on the November 1 immediately following such authorization.

Assessment of each member is based on the net direct written premium in the state during the preceding calendar year. In the event of catastrophe loss requiring assessment, a first partial loss assessment will be limited to $2 million per member.

The Plan of Operation allows members to recoup assessments, "in a manner authorized under State law." We did not find Alabama state laws pertaining specifically to this issue.

Plan of operation and Articles of Agreement of Alabama Insurance Underwriting Association

Mississippi Windstorm Underwriting Association

Any licensed and admitted insurer authorized to write insurance in the state is an assessable insurer. Nonadmitted insurers are not assessable, but a nonadmitted policy fee on all premiums by a nonadmitted insurer is required by Mississippi statute.

Recoupable and nonrecoupable assessments are levied by the association based on net direct written premiums in the state, for insurance on real property and contents.

Mississippi statute allows the association to levy both recoupable and nonrecoupable assessments in the event of a covered event that may produce losses in excess of funds that may be immediately available to the association, or in the event that the association determines that it will have a deficit. Nonrecoupable assessments are not to exceed 6% of the association's year-end total limits in force for the preceding calendar, or $250 million, whichever is less.

Recoupable assessments are recouped through a surcharge on all property and casualty insurance premiums in the state in the year following the assessment. The surcharge is implemented by the Commissioner.

The Plan of Operation mentions that "[a]ny assessment levied due to a covered event occurring during the calendar 2019 shall be a recoupable assessment," but does not provide details on any rules or system that determines whether a recoupable or nonrecoupable assessment will be levied in the event of a deficit.

[Mississippi Code Title 83 Chapter 34 – Windstorm Underwriting Association]

[Mississippi Windstorm Underwriting Association Plan of Operation]

North Carolina Insurance Underwriting Association

North Carolina statutes provide that every licensed insurer writing essential property insurance in the state is required to participate in the program. All such insurers shall participate in the nonrecoupable assessments levied by the Association in proportion to their net direct written premium in the state during the preceding calendar year for residential and commercial properties outside of the beach and coastal areas. These assessments are not directly recoverable from policyholders. However, prospective exposure to nonrecoupable assessments is allowed as an appropriate rating factor in the making of rates.

In the event of a deficit, if the Association has already levied $1 billion in nonrecoupable assessments in any given year, the Association may authorize member companies to impose a catastrophe recovery charge. The recovery charge will be a uniform percentage of written premium on residential and commercial property insurance policyholders statewide, and shall not exceed an aggregate amount of 10% of the annual policy premium on any one policy of insurance. Note that this is not a recoupment of the assessments, but the catastrophe recovery charges collected shall be transferred directly to the Association to finance the deficit.

[North Carolina Insurance Code Chapter 58 Article 45]

Texas Windstorm Insurance Association

The Texas Windstorm Insurance Association is composed of all property insurers authorized to engage in the business of property insurance in the state. The participation in the Plan is proportional to the net direct premium of the company written in the preceding calendar year.

In the event of a catastrophe or a series of catastrophes, the Association first uses premium, other revenues, and reserves to pay for losses. In addition, the Association has access to the Catastrophe Reserve Trust Fund (CRTF), which is an account held by the Comptroller containing the net gains from TWIA operations from prior years. Losses not paid by these sources are paid by three different classes of public securities and assessments:

1. Class 1 public securities, in a principal amount not to exceed $500 million per catastrophe year
2. Class 1 assessments, not to exceed $500 million per catastrophe year
3. Class 2 public securities, in a principal amount not to exceed $250 million per catastrophe year
4. Class 2 assessments, not to exceed $250 million per catastrophe year
5. Class 3 public securities, in a principal amount not to exceed $250 million per catastrophe year
6. Class 3 assessments, not to exceed $250 million per catastrophe year

If the Commissioner finds that Class 2 or Class 3 public securities paid from premiums and surcharges on TWIA policies cannot be issued, or that it is financially unreasonable to issue such public securities, the Commissioner must order that the Class 2 or Class 3 public securities are payable form a surcharge on all property or auto insurance policies located in areas where TWIA operates.

Separately, the Association may also levy assessments to pay for the cost of reinsurance. The Association is required to maintain total loss funding for no less than a 1-in-100 year event.

Texas statutes prohibit insurers from recouping any of the above assessments through premium surcharges or tax credits.

[Texas Windstorm Insurance Association Overview Prepared by Texas Department of Insurance]

[Texas Insurance Code Title 10, Subtitle G, Chapter 2210, Subchapter A]

Limitations

Use of Report

The data and exhibits in this report are provided to support the conclusions contained herein, limited to the scope of work specified by PIFC, and may not be suitable for other purposes. Milliman is available to answer any questions regarding this report or any other aspect of our review.

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Data Reliances

In performing this analysis we relied upon information obtained from state statutes, laws, Wolters Kluwer data, PIPSO reports, and other sources. We have not audited or verified this data and information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. In that event, the results of our analysis may not be suitable for the intended purpose.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency. We did not find material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a detailed review was beyond the scope of our assignment.

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